



NEWS RELEASE

CALIFORNIA STATE TREASURER PHILIP ANGELIDES

FOR IMMEDIATE RELEASE

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ANGELIDES SETS INVESTMENT PROTECTION RULES

Investment bank reforms needed in wake of recent scandals

NEW YORK, NY – California State Treasurer Philip Angelides today announced a new policy governing investment banks doing business with the State, aimed at protecting California families, pensioners and taxpayers from abuses that have rocked the financial markets. Under this initiative, investment banking firms will be asked to adopt the conflict of interest principles set forth in the recent agreement between New York Attorney General Eliot Spitzer and Merrill Lynch & Co.

Angelides joined New York Attorney General Eliot Spitzer, New York Comptroller Carl McCall, and North Carolina Treasurer Richard Moore at a New York press conference this morning, at which they announced a set of “Investment Protection Principles” that will be applied in their respective states. A combined total of over \$200 billion in institutional investment capital in the three states will be affected by the new policy.

“Our message today is simple and clear: if you wish to do business with our State, we expect you to adhere to the highest standards of integrity and disclosure,” Angelides said. “We are committed to rooting out the abuses that have rocked the financial markets and which have left families, pensioners and taxpayers to pick up the pieces,” he added.

As California’s banker, Treasurer Angelides oversees the \$50 billion Pooled Money Investment Account (PMIA), comprised of the funds of State government and more than 3,000 local jurisdictions. During the last fiscal year, the PMIA purchased approximately \$150 billion in securities. The Treasurer’s Office approves the investment banks and broker/dealers allowed to handle transactions with the PMIA, with over 60 firms currently on the approved list.

In addition, the Treasurer is responsible for selecting investment banks to work on State bond and debt issuances, which are expected to exceed \$25 billion in the coming year. There are currently over 70 investment banks in the State’s eligible pool.

The Treasurer will formally request that every firm doing and seeking to do investment business with the State adopt the principles and practices contained in the May 2002 agreement between

Mr. Spitzer and Merrill Lynch & Co. Compliance with the principles will be given significant consideration when retaining and evaluating investment banks.

The Investment Protection Principles call on firms to, among other things:

- sever the link between compensation for equity research analysts and investment banking
- prohibit investment banking input into analyst compensation
- create an independent review committee to approve all research recommendations
- disclose the reasons for terminating research coverage of a company
- disclose whether the organization has received or is entitled to receive any compensation from a covered company over the past 12 months
- prohibit promises of favorable research

In addition, Angelides will recommend adoption of the Investment Protection Principles, including provisions applying to money managers, to the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System Boards (CalSTRS) – of which he is a Board member. CalPERS and CalSTRS are the first and third largest public pension funds in the country, with approximately \$250 billion in assets. New York and North Carolina announced today that they will adopt the standards for their state public pension funds.

A copy of the Investment Protection Principles is attached.

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STATE AND PUBLIC PENSION FUND INVESTMENT PROTECTION PRINCIPLES

A. Effective July 1, 2002, every financial organization that provides investment banking services and is retained or utilized by the State Treasurer of North Carolina, the Comptroller of the State of New York, or the State Treasurer of California (hereinafter “the State Investment Officers”), including but not limited to organizations retained by the North Carolina Public Employees Retirement Systems and the New York State Common Retirement Fund (hereinafter “the Pension Funds”), should adopt the terms of the agreement between Merrill Lynch & Co., Inc. and New York State Attorney General Eliot Spitzer dated May 21, 2002 (hereinafter “the Investment Protection Principles”). In retaining and evaluating any such financial organization, the State Investment Officers will give significant consideration to whether such organization has adopted the Investment Protection Principles.

The Investment Protection Principles are as follows:

- sever the link between compensation for analysts and investment banking;
- prohibit investment banking input into analyst compensation;
- create a review committee to approve all research recommendations;
- require that upon discontinuation of research coverage of a company, firms will disclose the coverage termination and the rationale for such termination; and
- disclose in research reports whether the firm has received or is entitled to receive any compensation from a covered company over the past 12 months.
- establish a monitoring process to ensure compliance with the principles;

B. Effective July 1, 2002, every money management firm retained by a State Investment Officer, as a condition of future retention, must abide by the following:

1. Money management firms must disclose periodically any client relationship, including management of corporate 401(k) plans, where the money management firm could invest State or Pension Fund moneys in the securities of the client.

2. Money management firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients.
3. Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the Investment Protection Principles.
4. Money management firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions of the money management firm. Each money management firm shall provide the State Investment Officers with a copy of the safeguards plan and shall certify annually to the State Investment Officers that such plan is being fully enforced.
5. In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including the its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company.
6. In deciding whether to invest State or Pension Fund moneys in a company, money management firms must consider the corporate governance policies and practices of the subject company.
7. The principles set forth in paragraphs 5 and 6 are designed to assure that in making investment decisions, the money management firms give specific consideration to the subject information and are not intended to preclude or require investment in any particular company.